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THE PUBLIC DEBT OF RUSSIA.

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I.

RUSSIA'S general situation has greatly improved of late years. This is true not only in regard to her territory, to her population, which now numbers over 126,000,000, and to her natural wealth, developed or latent. Other factors have contributed to strengthen her prestige. The influence exercised by Russia is one eminently pacific. The progress made by Russia in the domain of industry, in the working of her great coal and mineral beds—an activity which gives a truly American aspect to certain regions in her vast territory—has been rendered possible by this policy of external peace. Foreign capital has played an important part in this development, in this evolution from purely agricultural interests toward other branches of activity. This capital has been attracted by the high rate of remuneration which it could obtain in Russian industrial centres; its entry into the country was facilitated by the monetary reform, which tended above all to give stability to Russian money and has replaced the paper standard by that of gold. The policy of protection has also played its part in the rapid creation of Russian industry.

Energetic efforts have been made to increase the number of railroads in the country, to cover it with a tighter network, and also to unite it with the Pacific coast by an unbroken iron ribbon crossing Siberia and Manchuria. Every necessity of the life of a nation finds its expression in the Budget, which is the reflection of present needs and of the general economic condition, and also has its part in the heritage of the past. Thus the study of the public finance of a country is not so dry as is usually supposed, when pursued from this point of view; and in that study one again finds the proof of the great progress which Russia has made. It has had

the good fortune to have a succession of Ministers of Finance who, with various kinds of character and temperament, have inaugurated and conducted to a successful conclusion the re-establishment of the State finances on a firm basis, the alleviation of the burden of debt, and the monetary reform. M. de Witte, the present Minister of Finance, is the one among them who has the broadest views, the most exact understanding of the general needs, and who represents the best type of the energetic statesman. But it would be unjust not to recognize the merits of two of his immediate predecessors: M. Bunge, who prepared the reform of the taxes, who incorporated in the Budget certain items which up to his time had been excluded therefrom, and who abolished the poll-tax; and M. Vischnegradsky, who began the accumulation of the gold reserve, undertook with such success the conversions of the Russian debt and saw the chronic deficit come to an end.

II.

On the 1st of January, 1899, the debt was increased to 6,108 millions of rubles (a ruble is 51½ cents), half of which sum represents the engagements to pay in foreign money; since the accomplishment of currency reform, which brought Russia round to a gold standard, all the interest may be considered as paid at a fixed and stable rate of exchange. The annual service—interest and sinking fund together—rose, for 1899, to 279 millions of rubles; that is, to a figure a little higher than that of 1895. It must not be forgotten that, in this total of 279 millions, more than a hundred millions are to be put down to the account of the railroads, and another sum of thirty-five millions is due to loans contracted for the redemption of the peasants.

On the 1st of January, 1898, when the administration of the debt required 272 millions of rubles for interest and redemption, the debt comprised:

Loans Contracted for Needs of the State.	
	Rubles.
3 per cent.....	496,000,000
3½ per cent.....	23,000,000
3.79 per cent.....	104,000,000
4 per cent.....	2,539,000,000
4½ per cent.....	217,000,000
5 per cent.....	275,000,000
6 per cent.....	38,000,000
Other loans	58,000,000
Without interest	175,000,000
Total	3,925,000,000

Loans Made on Account of Railroads.

	Rubles.
3 per cent.....	103,000,000
3½ per cent.....	126,000,000
4 per cent.....	1,959,000,000
4½ per cent.....	193,000,000
5 per cent.....	33,000,000
Total	2,414,000,000

Thus the greater part of this debt is in the four per cents. The value is at present at par; it was above par before the rise in the cost of capital, which has affected the state funds of all countries. The same is true of the three per cents, which, like the English and German consols, have gone down, having fallen to 90½, from 96.

A great part of the public debt of Russia is secured by the most real and substantial assets, the network of state railroads, which may be estimated at about three billion rubles.

III.

The first period of the Russian debt ends with the reign of Catherine II. Before the great Empress there was the epoch of the infancy of the Russian power. Public credit did not exist. The sovereign obtained the means for prosecuting his struggles against his neighbors and the independent princes, by loans negotiated with the convents, by the creation of monopolies and by farming out the sources of revenue and debasing the currency. In the seventeenth century imposts and custom-house duties were established. At different times it was attempted to get money from foreign powers, particularly from England and from Holland; but in return these two countries demanded commercial privileges altogether too considerable. In 1656 Czar Alexis received a Venetian embassy which came to solicit his assistance against the Turks, and it was this embassy which was responsible for the attempt to obtain a loan from the rich Italian Republic. Russian envoys embarked at Archangel on a Dutch boat, and made the then prodigious voyage to the Mediterranean; but no agreement could be effected with Venice. No better success was had with Charles II. and the London merchants in 1662, on account of the lack of sufficient guarantee. In the reign of Peter the Great the Budget gradually rose from three to ten millions of rubles; the deficits were met by the aid of fresh taxes and new monopolies. Peter the Great tampered anew with the currency.

A second period in the history of the Russian debt extends

from the accession of Catherine II. to the end of the Napoleonic wars (1768-1816). Russia had become a centralized State, whose power, already acquired, was to be solidified and extended. The debt furnished a part of the indispensable means to this end. Three-quarters of the public expense at the accession of Catherine II. were devoted to the maintenance of the army. New taxes were designed and issues of paper money inaugurated. In spite of the best intentions, in spite of the decision to establish a metallic basis, the Government was at its wit's end in 1770; in 1796 there were 156 millions in circulation, and the loss in exchange was considerable. Catherine II. succeeded in procuring money in Holland. The first loan of two million rubles was made in 1769. An imperial ukase gave as guarantee the whole of the receipts of the State, notably the imposts from Esthonia and Livonia; and the sovereign gave her word of honor that, in the event of a war with Holland, neither the principal nor the arrears of the debt would be confiscated. The loan was to be divided into obligations of 500,000 florins, which the bankers might break up into bonds of 1,000 florins. The annual interest was to be five per cent.; the placing of the loan, redeemable by lot in ten years, confided at first to the Smet Bank, failed. Messrs. Hope and Company were called upon, and they promised their aid for future operations. An advance of a million piastres was arranged for with the Marquis Maruzzi of Genoa. The war indemnity paid by the Turks made it possible to repay this loan, and a part of the Dutch loan, the rest of which was converted into four per cents. From 1774 to 1796, numerous financial operations were transacted with the Dutch through the instrumentality of Hope, with the aid of de Wolff at Antwerp, and de Regny at Genoa. Nineteen Dutch loans and three or four Genoese ones furnished the money for military campaigns, for the redemption of loans due or for conversions. In 1796, the debt had risen to 41.4 millions of foreign obligations, 82.4 millions of domestic and 156.7 millions without interest (*assignats*); that is altogether 280.5 million rubles. Paul I. endeavored to re-establish the State finances, and to raise the current value of the ruble without renouncing the issue of paper money. He consolidated the different foreign debts of Russia, and, in place of various existing obligations, Hope and Company received a single bond for 88 1-3 million florins, bearing five per cent. interest, and redeemable in twelve years.

The first fifteen years of the reign of Alexander I. (1801-1825) were full of difficulties for the treasury, the Napoleonic wars absorbing vast sums. The presses unceasingly printed paper money; in 1810 the amount of this reached 579 million rubles, and a ruble was not worth more than 44 kopecks. The Council of State being consulted, declared that the forced circulation and the issuing of paper currency constituted the heaviest of imposts; it recommended that an increase of taxes should be made with great caution, that rigid economy should be practised in public expenditure, and, above all, that publicity should be given to the operations of the treasury. Political complications and the war came to cut short these proposed and decreed reforms. The consolidated debt was not much decreased during the years from 1801 to 1817. The authorities redeemed with one hand and borrowed with the other. In 1810 was created an imperial commission of the sinking fund, to procure the sums necessary for its operations by the sale of domains, which consisted mainly of immense forests.

The sale progressed so slowly that in 1812 it was resolved to reinforce the resources of the sinking fund, and certain imposts and rents were appropriated. All these resources, however, were absorbed by the expense of the war which broke out anew. Subsidies from England replaced foreign loans. At the time when the Russian troops had passed the frontiers, it was necessary to provide metal money in place of the paper currency circulating in Russia; and for this the help of England was useful.

After the re-establishment of peace in Europe, it was attempted to provide some remedy against the inconvenience of an excessive quantity of State notes. Loans were made at home and abroad, and with this money the number of assignats was reduced; by 1824 247 millions of them had been cancelled. In 1817 was instituted the council for the establishment of State credit, which was to control the action of various Government institutions, as well as the commission of the sinking fund. A great ledger of the public debt was organized, which comprised the foreign debt, the perpetual internal debt and the reimbursable debt. In order to withdraw the assignats, several foreign loans were concluded, and in 1824 the debt amounted to 383 millions.

The wars which occupied the period of 1828 to 1834 disturbed the equilibrium of the Budget; a deficiency arose and it was necessary to make an appeal to credit. On the 1st of January, 1834, the

debt had risen to 493 millions. In six years it increased 120 millions. Military expenses had to be met, large sums had to be devoted to the maintenance of the army, and the construction of the railway from Moscow to St. Petersburg bore heavily upon the State finances. In 1841 a loan with Hope of 25 millions at four per cent. was made. In 1842 occurred the first loan made through a Russian intermediary, the house of Stieglitz and Company, and this, as well as loans made in 1843, 1844 and 1847, was devoted to the Nicholas Railroad.

In 1839 the Government took measures to reform the fiduciary circulation; the silver ruble, valued at 350 assignat-kopecs, became the money unit.

On the 1st of January, 1848, the Russian debt stood at 828 millions. From 1848 to 1853 Russia intervened in Hungary, and the Western conflict arose; during this time, she concluded a loan of five and a half million pounds, sterling, with Barings. By the 1st of January, 1853, the debt had risen to 1,034 millions, of which 300 millions consisted of notes of credit. The State receipts amounted to 248 millions; among the expenses, the debt absorbed 44 millions, the war 82 millions, the navy 17 millions, and roads of communication 19 millions. The gold and silver reserve from the funds on exchange rose to 123 millions.

The period from 1853 to 1877 commenced with the war of the Crimea and finished with the last struggle against the Turks. From the point of view of interior politics, this period was marked by the great reforms that are the glory of the reign of Alexander II. The expenses of the war and of the army were met by loans and by the issue of paper money. In four years the amount of notes of credit had grown to 420 millions, as a natural consequence of the suspension of cash payments of notes. From 1857 to 1866 Russia was at peace with the world. She was absorbed in the enfranchisement of the serfs, and in reforms, administrative, judicial and fiscal (the publishing of the State Budget and the reorganization of administration in 1862), and in the development of her network of railroads. In 1858, the establishments of State credit were replaced by the Bank of Russia, destined to develop commerce and industry, and endowed with the privilege of issuing notes. The Government consolidated different floating debts by the issue of four per cent. perpetuals at home, and it contracted several loans (three per cents. issued in 1859 at 65, four and a half

per cents. issued at 90 in 1860) to strengthen the bank's reserve. It endeavored to return to cash payments, and issued in 1862 at 91½ a loan of 15 million pounds, sterling, with this aim. Unfortunately, the insurrection in Poland frustrated these good intentions. About the same time the freeing of the peasants was marked by a bond issue, the State undertaking to float them and receive in return the redemption payments.

Gradually, 400 million rubles were issued, which at the beginning were valued at at least 65, and have been for a long time at par, and have been used for conversion. The credit of Russia was not high at this period; several loans concluded with foreign banks were often but half taken up. The State had recourse to credit in order to increase the resources of the Bank of Russia, and to continue the most important lines of the railway between Moscow and the Black Sea.

The ten years from 1866 to 1876 are important on account of the establishment of the network of railroads, which could not have been accomplished save for foreign capital. The Minister of Finance, M. de Reutern, devoted all his energy to this purpose, so necessary to the development of natural resources, and so well did he succeed that in place of 2,000 kilometres of exploited road, all that existed on his entrance into office, there were in 1876 nearly 20,000 kilometres in full activity. In 1867 and 1869 two loans, amounting together to 577 million francs, were made on hard conditions (four per cents. at 61 and 63) to facilitate the sale of the Nicholas Railroad, and to create a special fund for the purpose of constructing State roads and ports. M. de Reutern had an ingenious idea which the Italian Government afterward adopted. He made the State serve as an intermediary between the Russian companies and foreign exchanges. He made advances to the companies, *ad valorem*, on the obligations that they were authorized to arrange, and he recouped himself for these advances by issuing consolidated obligations the moment he judged it opportune to do so. From 1870 to 1875 there were issued, under these conditions and through the intervention of the Rothschilds, five series of consolidated obligations of the Russian railroads (the first four at five and the last at four and a half per cent.), making in all 69 million pounds, and at prices higher and higher, from 76 in 1870 to 91 in 1875. Two other issues of the same sort were made in 1880 and 1884. All these bonds were redeemable by degrees, and

they have all been converted into a fund of four per cents. The war with Turkey showed the great importance of these 20,000 kilometres of railroads. In 1877, in spite of the blockade of the Black Sea and the fact that the railroads were occupied with the transportation of troops, Russia was able to export 60 million hectolitres of grain. The efforts made to improve the financial situation and to raise the credit of the State were crowned with success in 1876: the Russian five per cents. were cited at 106 on the Bourse at Paris, and the ruble was worth about three and a half francs.*

Foreign political complications again occurred to disturb this. From 1876 to 1881 the extraordinary military expenses due to the war were 1,020 millions. The resources realized by the treasury consisted of 904 millions in loans, and to this must be added the balances of the closed Budgets, and 25 millions, the surplus receipts of 1878.

The immediate expenses of the war were covered by the issue of paper money; the treasury received as much as 525 million rubles (the maximum received in August, 1879). On the 28th of July, 1880, the floating debt was reduced to 352 millions by Gen. Greig, who used for this reduction the disposable funds remaining from the Oriental loans. Unfortunately, from August to December the floating debt was augmented by the issue of paper money and amounted to 417 millions. M. Abara, who replaced Gen. Greig, had the courage to renounce the resources arising from the printing of the State notes and at the same time he engaged to pay back in eight annual instalments the debt of the treasury to the Bank of Russia. He remitted to the bank 173 millions, one-half in five per cent. bonds, and 243 million rubles in notes of credit, of which 87 millions were destroyed.

From 1880 to 1887, Russia proceeded by a series of financial operations, sometimes at home and sometimes abroad, to construct the railroads without diminishing the resources of the treasury. In 1885 the appearance of the Budget was modified by the incorporation of the payments made for the redemption of the serfs. On the 1st of January, 1888, the total debt of Russia amounted to 5,469,739,746 rubles, this including the increase of the debt without interest. The original total had been 6,572 millions,

*The budget of 1875 closed with a surplus of 33 millions. (See my book "*Les Finances de la Russie depuis la Guerre d'Orient.*" Guillaumen & Cie, 1884.)

of which 1,102 millions had been gradually redeemed. The annual mechanical decrease, resulting from the fact that loans had been contracted with a clause stipulating for repayment by degrees, has played an important rôle in the question of the Russian public debt.

IV.

A Minister of Finance can alleviate the burden of annual charges by efficacious means: the conversions of the debt. When in 1875 the credit of Russia appeared to justify the current price of 106 for the consolidated debt, the issue was too recent to permit of a conversion; the war with Turkey destroyed the work of M. de Reutern. Eleven or twelve years afterward circumstances once more became favorable; the German banks which had conducted the Hungarian conversion took the field in order to be charged with the Russian conversion. M. de Hausemann, president of *Der Rontogesellschaft*, of Berlin, came to offer his services to M. de Bunge. The discussion terminated in nothing; but, nevertheless, the conversion was not lost to sight, although it was necessary to wait two and a half years before effecting it. The European bankers watched operations as closely as did the Russian Government. Overtures were made in the autumn to M. de Vischnegradsky, who had replaced M. de Bunge. He skilfully profited by a variety of circumstances and by the rivalry among the bankers; he was able to attach his name to a number of conversions, the first of which, made with an understanding with the French financial establishments and French, English and Dutch bankers, raised 2,500 million francs in 1888 and 1889. The issue of new four per cent. loans, destined to replace the five per cent. bonds, was accomplished with very great success at prices continually rising from 86.45 to 91.50. In subsequent operations a closer approach was made to par value, and the redeemed railroad obligations, bearing a considerably higher interest, were replaced by three and a half per cent. bonds, put on the market at 94.50.

We will not go into the history of the conversions which continued in 1890 and the following years. If we take the indications from 1889 to 1897, as they appear in the reports of the imperial treasury, we see that the nominal amount of the loans converted during this period (loans at six per cent., five and a half per cent., five per cent., four and a half per cent.) reached

2,779 million rubles, which have been replaced by four per cent. and three and a half per cent. obligations. To redeem and modify these obligations, 2,838 million rubles were spent. The loans issued have brought in, as increase in the principal of the debt, 260 millions. It must not be forgotten, indeed, that the first four per cents. were issued at 86, and that it was only gradually that par was arrived at. The new obligations have been for the most part exchanged for the obligations of converted loans. Out of 796 million rubles of gold, 30 millions were not presented for exchange, and have had to be reimbursed. Out of 1,584 millions credit, 1,454 millions accepted the conversion. These are figures which indicate the great success of the operations carried on by MM. Vischnegradsky and de Witte. As for certain small loans, they were also reimbursed from the resources of the treasury. It must be added that during this period, from 1889 to 1897, the sinking fund of the treasury rose to 306 million rubles for the debt at interest.

V.

The total of the Russian Budget has grown considerably during the last fifteen years, in consequence of its inclusion of expenditures and receipts which might be called *comptes d'ordre*, such as the construction of the State railways and the monopoly of the sale of spirits. If one compares the receipts of 1888 with those of 1897, one sees that they progressed from 873 million to 1,416 million rubles. In the Budget of 1888 the railroads figure to the amount of 75 millions; in that of 1897 they reach 293 millions. This same consideration, concerning the causes of the increase in the total of the Russian Budget, may be repeated in speaking of the public debt. As M. de Witte explains in his *exposé* of the Budget of 1899, the increase of the public debt during the last twelve years is entirely due to the large sums spent in the acquisition and construction of railways; that is to say, for a purpose which not only has the first importance for the general interest of the State and the economic development of the country, but which is directly productive from the financial point of view.

From the 1st of January, 1887, to the 1st of January, 1899, the public debt increased by 1,531 million rubles. Of this total, 1,139 millions represent the amount of loans contracted to redeem the railroad concessions and to continue the construction of the State lines. Furthermore, the State spent 425 million rubles of

gold, above this sum, in that construction, calling upon the treasury. In consequence, for this period of twelve years the cost of the increase in the State railways (1,564 millions) exceeded by 33 millions the total increase in the debt. During this same period 440 million rubles were paid to the Bank of Russia to reduce its account with the treasury for its principal note issues.

The following is the situation of the Russian public debt at interest on the 1st of January, 1887, and on the same date in 1899 and 1900:

Balance of Nominal Capital.	Jan. 1, 1887.	Jan. 1, 1899.	Jan. 1, 1900.
Debt, in gold rubles, pounds sterling, etc.	1,975,476,600	3,062,147,280	3,045,105,611
Debt, in rubles (credit).....	2,381,811,153	3,046,644,837	3,105,029,263
Total (in rubles at 2% francs)...	4,357,287,753	6,108,792,117	6,150,134,874

A very interesting chapter on the history of the debt would be that of the non-interest bearing portion, that is to say, the State notes issued with no metallic basis. This part of the debt has gradually been reduced, and in 1900 a final payment wiped out the last vestige of it, the treasury turning in to the bank gold to cover it. The fiduciary circulation has been reduced from 1,100 millions to 600 millions, and 250 millions of gold have been put in circulation in the country.

Thus, at the end of 1896, there were in circulation 37.5 million gold rubles; in 1897, 155 millions; in 1898, 445 millions; in 1899, 639 millions; in 1900, 684 millions. In 1899 and 1900, despite various unfavorable circumstances, such as the small receipts from commercial sources and the extraordinary expenses entailed by the difficulties in China, the exports of gold from Russia—that is to say, the diminution of the stock of gold—were only about 24.6+74.1 millions, a total of 98.7 millions. At the end of 1900, the stock of gold was about 807 millions at the Bank of Russia and in the vaults of the treasury, about 684 millions in circulation, altogether about 1,492 millions; with 222 millions of silver money (of which 58.3 millions was at the Bank and in the treasury), while the fiduciary circulation amounted to only 552 millions. The Bank had in reserve 77 millions of its own notes.

VI.

The credits opened in the Budget of 1899, for the administration of the debt, amounted to 276.6 million rubles; in that of

1900 to 274.7 millions; in that of 1901 to 274.7 millions. (The expenses incurred in 1899 were only 275.7 millions.) Of late years, in the process of manipulating the debt, in consequence of various sorts of unifications, of purchases of railways, and of conversions, the amount to be paid annually has scarcely varied.

From 1896 on, Russia contracted no foreign debt, on account of the State, until May, 1901, when she placed a loan of 424 million francs, at four per cent., with the greatest success. The product of this loan was destined to reimburse the treasury for the advances made to the railway companies. The operation was very successful, the price of conversion, 98½, was not too high, the subscriptions were very numerous, the distribution being rated to benefit the public which buys bonds to keep, and to discourage speculation. The fact that the price of the new four per cents., which bear the name of Russian consolidated four per cents., and which are not convertible before 1915, has risen constantly since the issue and is now 102, shows the good standing of the new bonds.

Russia, whom her enemies never cease to represent as overwhelmed by her financial necessities, negotiated her last loan, in 1901, at what she judged the most opportune moment, from the point of view of the market and of her own convenience. The reception given to this operation shows that her credit is absolutely intact, and that Russia receives from foreign capitalists the confidence which her solvability and her respect for the obligations which she undertakes merit. The solicitations of bankers and offers to arrange loans have not been wanting in St. Petersburg, but they have been resisted, and the wise principles of financial administration practised which, tending to constitute considerable reserves, enable her to face sudden emergencies. Thanks to these reserves, formed for the most part from the surplus of the ordinary Budgets, Russia has been able to almost entirely complete the Trans-Siberian railway, to increase her navy, to equip her army with new weapons, to aid the peasants affected by the bad harvests, to repay to the Bank of Russia the non-interest-bearing debt, and to meet the Chinese expenses in 1900.

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